BANK OF CANADA
BANQUE DU CANADA

Business Outlook Survey

Conducted by the Bank's Regional Offices | Results of the Summer 2012 Survey | Vol. 9.2 · 9 July 2012

Overview

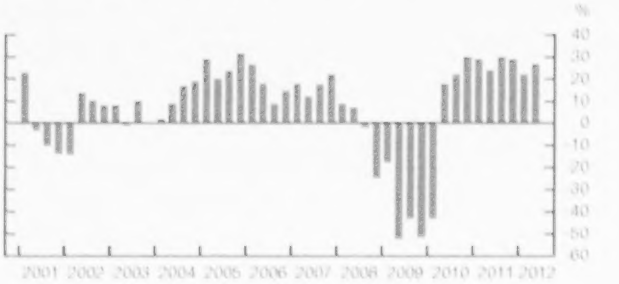
- Responses to the summer survey suggest that businesses generally remain positive about the outlook, but are mindful of renewed uncertainty regarding the global economic environment.
- Firms continue to expect sales growth to increase over the next 12 months, although the balance of opinion has declined from its high level in the spring survey. The balance of opinion on employment rose, with plans to hire over the next 12 months widespread across regions and sectors, but concentrated among small and medium-sized firms. Intentions to increase investment remain robust.
- The indicator of capacity pressures moved up modestly, although reports of labour shortages are little changed, and firms expect input and output prices to rise at about the same rate as over the past 12 months. Inflation expectations have moved down and remain concentrated within the Bank's inflation-control range.
- By a narrow margin, firms reported that credit conditions tightened over the past three months. Reports of tightening were concentrated among small and medium-sized firms and were often attributed to firm- or sector-specific factors.

Business Activity

On balance, firms reported improved sales growth over the past 12 months (Chart 1). As well, the balance of opinion on future sales growth remains positive (Chart 2), indicating that firms expect sales to increase at a greater rate over the next 12 months. However, the

Chart 1: Firms report an increase in sales growth over the past 12 months...

Balance of opinion*
Over the past 12 months, did your firm's sales volume increase at a greater, lesser or the same rate as over the previous 12 months?

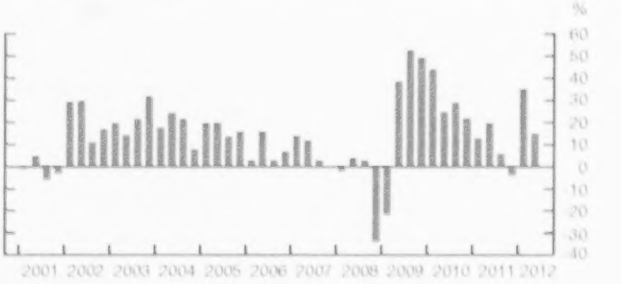


Greater: 53% Same: 21% Lesser: 26%

* Percentage of firms reporting faster growth minus the percentage reporting slower growth

Chart 2: ...and expect sales growth to increase over the next 12 months

Balance of opinion*
Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 47% Same: 21% Lesser: 32%

* Percentage of firms expecting faster growth minus the percentage expecting slower growth

The *Business Outlook Survey* summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Additional information on the survey and its content is available on the Bank of Canada's website. The summer 2012 survey was conducted from 22 May to 14 June 2012. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

ISSN 1916-4068 (Print)
ISSN 1916-4076 (Online)

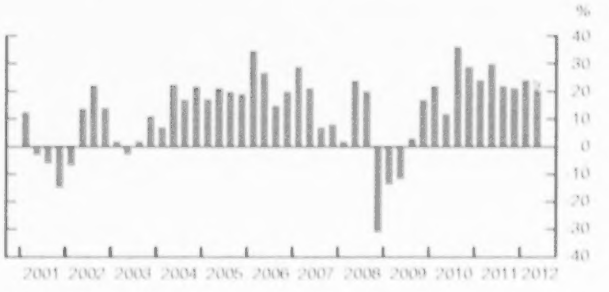
balance of opinion declined from its level in the spring survey, as the view that sales growth will increase became less widespread. This partly reflects the fact that some firms do not expect sales growth to exceed the strong rate experienced over the past 12 months, as well as some tempering effects from renewed uncertainty regarding the global economic outlook. Nonetheless, several factors support the overall view that sales growth will be higher over the next 12 months, including commodity-related activity and the resulting spillover effects, firms' own initiatives to reposition themselves for growth, and gradually improving U.S. demand.

The balance of opinion on investment in machinery and equipment is unchanged from its level in the spring survey (Chart 3), and continues to point to an increase in investment spending over the next 12 months. Many firms are investing in order to respond to competitiveness challenges by expanding into new markets, developing new products or improving productivity. As well, some firms are expanding output to meet demand.

The balance of opinion on employment has increased and is at the survey high (Chart 4). Firms often cited intentions to hire over the next 12 months in order to meet expected sales growth or as part of new plans or projects. Intentions to increase employment, while widespread across sectors and regions, are concentrated among small and medium-sized firms.

Chart 3: Firms intend to increase investment...

Balance of opinion*
Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower or the same as over the past 12 months?

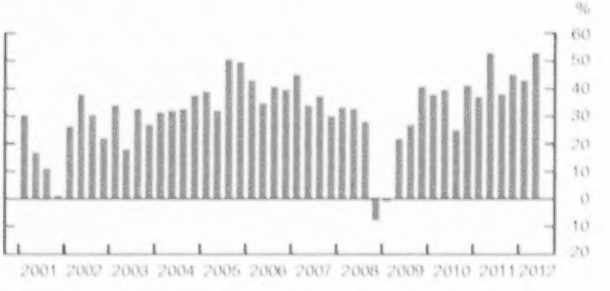


Higher: 43% Same: 38% Lower: 19%

* Percentage of firms expecting higher investment minus the percentage expecting lower investment

Chart 4: ...and also plan to raise employment

Balance of opinion*
Over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the past 12 months?



Higher: 59% Same: 35% Lower: 6%

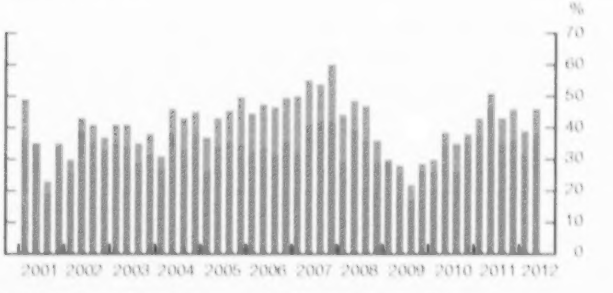
* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Pressures on Production Capacity

The percentage of firms reporting some or significant difficulty meeting an unexpected increase in demand rose modestly (Chart 5), owing to more reports from smaller firms, often those tied to the resource sector, that they would find it difficult to attract suitable labour. Overall, capacity pressures are more prevalent in the West. Some firms reporting capacity pressures noted that spare capacity still exists at the industry level.

Chart 5: Reports of capacity pressures are modestly higher...

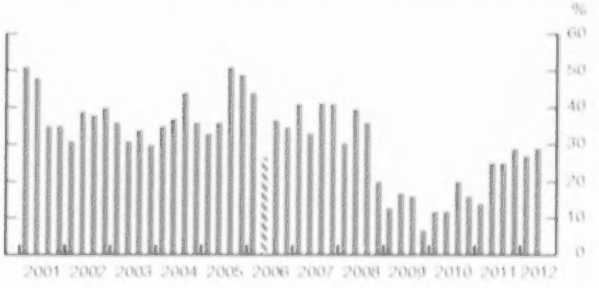
How would you rate the current ability of your firm to meet an unexpected increase in demand?



The percentage of firms reporting that labour shortages are currently restricting their ability to meet demand is essentially unchanged and remains below the survey average (Chart 6). Reports of labour shortages continue to be more common among firms in Western Canada.

Chart 6: ...but reports of labour shortages are essentially unchanged

Does your firm face any shortages of labour that restrict your ability to meet demand?



Yes: 29%

SSC The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

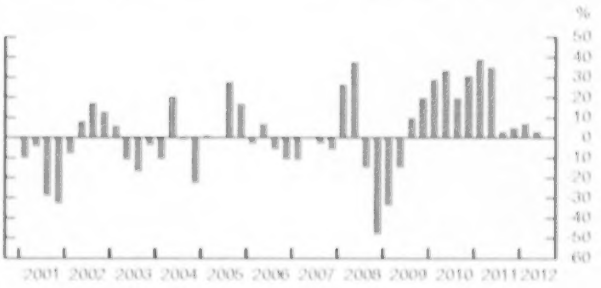
Prices and Inflation

The balance of opinion on input prices has edged down slightly and is close to zero (Chart 7). On balance, firms expect the prices of the goods and services they purchase to increase at about the same pace as over the past 12 months. Compared with the spring survey, fewer firms expect commodity prices to contribute to rising input prices over the next 12 months.

Chart 7: Firms expect input prices to increase at about the same rate over the next 12 months

Balance of opinion*

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 24% Same: 54% Lesser: 21% No response: 1%

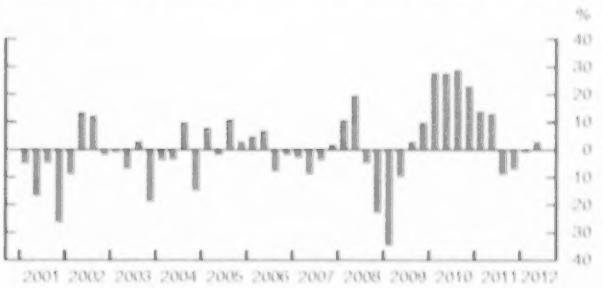
* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

The balance of opinion on output prices is also close to zero, indicating that firms expect their output prices to increase at the same rate over the next 12 months as over the past 12 months (Chart 8). A number of firms continue to point to competitive pressures as a factor limiting increases in output prices.

Chart 8: Firms also expect output prices to increase at the same pace over the next 12 months

Balance of opinion*

Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser or the same rate as over the past 12 months?



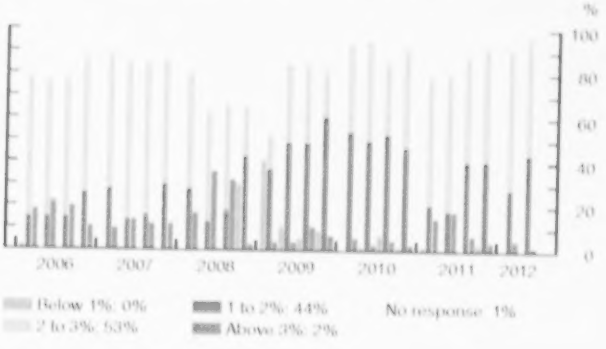
Greater: 26% Same: 50% Lesser: 23% No response: 1%

* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Nearly all firms expect CPI inflation to be within the Bank's 1 to 3 per cent inflation-control range over the next two years (Chart 9). After moving up in the spring survey, influenced by strong oil prices, inflation expectations moved down in the summer survey, with an increase in the percentage of firms expecting inflation to be between 1 and 2 per cent.

Chart 9: Inflation expectations are concentrated within the Bank's inflation-control range

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?



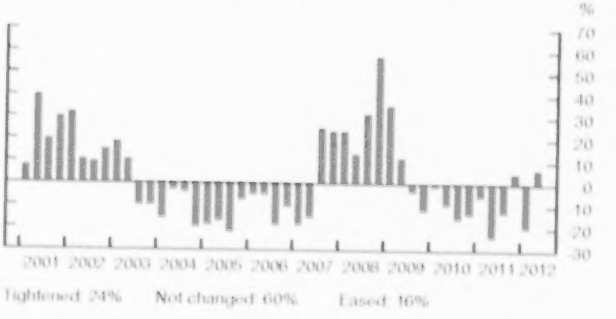
Credit Conditions

By a narrow margin, the survey responses point to some tightening in credit conditions over the past three months, following a broad-based easing in the spring survey (Chart 10). The firms reporting less-favourable terms and conditions for obtaining financing were primarily small and medium-sized, often attributing the change to firm- or sector-specific factors. Large firms generally continued to indicate that credit conditions had eased.

Chart 10: By a narrow margin, firms reported that credit conditions tightened over the past three months

Balance of opinion*

Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



* Percentage of firms reporting tightened minus the percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

Bank of Canada offices

Atlantic Provinces
1701 Hollis Street, 13th Floor
Halifax, Nova Scotia B3J 3M8

Quebec
1501 McGill College Avenue, Suite 2030
Montréal, Québec H3A 3M8

Ontario
150 King Street West, 20th Floor, Suite 2000
Toronto, Ontario M5H 1J9

Prairie Provinces, Nunavut and Northwest Territories
300 – 4th Avenue SW, Suite 2411
Calgary, Alberta T2P 0H7

British Columbia and Yukon
200 Granville Street, Suite 2710
Vancouver, British Columbia V6C 1S4

Head Office
234 Wellington Street
Ottawa, Ontario K1A 0G9
1 800 303-1282